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FISCAL IMPACT STATEMENT

LS 7379
BILL NUMBER: HB 1318

NOTE PREPARED: Jan 21, 2013
BILL AMENDED:

SUBJECT: Tax Credits.

FIRST AUTHOR: Rep. Clere
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill transfers the administration of the Historic Rehabilitation Tax Credit (HRTC) from the Division of Historic Preservation and Archeology of the Department of Natural Resources (DHPA) to the Office of Community and Rural Affairs (OCRA).

The bill provides that the credit applies to the preservation or rehabilitation of historic properties that have been vacant for at least one year. It establishes four new methodologies for determining the amount of the tax credit. The bill provides that a property's adjusted basis is not reduced by the amount of the credit if a person is entitled to a federal low income housing tax credit. The bill changes numerous spending floors and caps relating to the tax credit. It phases in increases to the annual statewide cap on the tax credit until the cap is $10 M. The bill voids a rule providing that the maximum amount of tax credits for a particular project is $100,000. It also prohibits the OCRA from reallocating available tax credits from year to year.

It specifies that the OCRA may adopt emergency rules

Effective Date: July 1, 2013.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the modifications to the HRTC. The DOR's current level of resources should be sufficient to implement this change.

Division of Historic Preservation and Archaeology (DHPA): The DHPA will transfer the administration of the HRTC to the OCRA. They are also required to transfer all property, records and rules regarding this credit to the OCRA. The bill requires the DHPA to provide any assistance necessary for the OCRA to administer this credit. However, this will unlikely result in a reduction of DHPA's administrative expenses because they would still administer the Residential Historic Rehabilitation Credit. Both credits are designed to encourage the rehabilitation of historic buildings and draw from the same pool of potential properties.

Office of Community and Rural Affairs (OCRA): The OCRA will incur additional administrative expense to develop forms, process applications, maintain property records and certify HRTC. Additionally, the changes in the bill will increase the complexity of the applications, review, and certification processes. The bill's requirements represent an additional workload [and/or expenditure] on the agency outside of the agency's routine administrative functions. However, the OCRA's existing staffing and resource levels may be sufficient for full implementation.

Explanation of State Revenues: *Summary* - This bill makes several changes to the HRTC. Some changes would allow the credit to be claimed more frequently while other changes place new restrictions on the credit's use. The bill states the changes to the HRTC are only effective for the credits awarded after June 30, 2013. All credits awarded before then are subject to the terms and conditions of the statute prior to this bill. The number of taxpayer credit claims and the number of projects submitted have decreased in recent years. It is unknown if this bill would reverse the trend. The net impact is indeterminable.

Additional Information - The bill makes the following modifications to the HRTC.

Existing	Proposed
The minimum amount of qualified expenditures is $10,000.	Increases minimum amount of qualified expenditures to $25,000
There is no vacancy requirement.	The historic property must have been vacant for at least 1 year.
The credits are recaptured from the taxpayer if they transfer the property less than 5 years after the work is completed regardless of its intended usage.	The taxpayer may retain the credit if the property is transferred as a condominium.
It has no scoring system.	It provides a scoring system to evaluate the worthiness of the project. The scoring system uses median household income rank, the rurality index for the county, and the building's rating from the DHPA's most recent interim report.
An administrative rule limits the amount of credit for any one project to $100,000.	The amount of credit awarded for one project may not exceed 20% of the annual credit limit. In addition, 25% of the annual credit limit must be dedicated for projects with less than $500,000 in qualifying expenditures. If there are not enough projects under $500,000, then the excess of the reserved amount may be used for other projects.

Existing	Proposed
The credit equals 20% of the qualified expenditures as approved by the DHPA.	The credit is computed using one of the 4 methods below: 1) If the taxpayer's total qualifying expenditures is less than \$2 M, the credit equals 40% of either: a) the qualified expenditures. b) the product of 1.3 and the amount of qualified expenditures if the property is located in a difficult development area or a qualified census tract. 2) If the rehabilitated property is a school, hospital, or an Indiana Main Street Program grant recipient, the credit equals 40% of either: a) the qualified expenditures. b) the product of 1.3 and the amount of qualified expenditures if the property is located in a difficult development area or a qualified census tract. 3) If the rehabilitated property obtains a qualifying score based on the system described within the bill, the credit equals 40% of either: a) the qualified expenditures. b) the product of 1.3 and the amount of qualified expenditures if the property is located in a difficult development area or a qualified census tract. 3) For all other projects, the credit equals 20% of either: a) the qualified expenditures. b) the product of 1.3 and the amount of qualified expenditures if the property is located in a difficult development area or a qualified census tract.
The maximum statewide credit amount of HRTC for all taxpayers is limited to \$450,000 per fiscal year.	The maximum statewide HRTC limit increases each year until FY 2017. The annual cap remains the same thereafter. The phase in schedule is below. FY 2014: \$2.5 M FY 2015: \$5.0 M FY 2016: \$7.5 M FY 2017: \$10 M

All the changes within the bill only apply to the projects and credits awarded after June 30, 2013. The bill will not affect the projects already approved, awaiting to redeem the credit they were granted by the DHPA. According to a report submitted by the DHPA, the queue of taxpayers waiting to claim a HRTC extends to FY 2023.

The National Register online database lists 1,479 individual properties and 298 historic districts. The breakdown of commercial and owner-occupied properties is unknown, and so is the number of buildings in each historic district. Increasing the credit amounts, raising the annual credit limit, and allowing certain property transfers may increase the number of project applications. However, including a vacancy requirement, increasing the minimum qualifying expenditure, and the complexity of the credit computation will likely decrease the number of applications. It is uncertain how all the changes will impact the number of taxpayers applying for the HRTC.

Background Information - The HRTC was established to encourage the rehabilitation of historic properties. The historic property must be actively used in a trade, business, held for rental, or other use in the ordinary course of the taxpayer's business. The credit may be applied against Individual or Corporate Adjusted Gross Income (AGI) Tax liability. The tax credit is equal to 20% of qualified expenditures as approved by the DHPA, and qualified expenditures must exceed $10,000. The credit is nonrefundable, but unused credits may be carried forward for up to 15 years. Unused credits may not be carried back. The maximum statewide credit may not exceed $450,000 for all taxpayers for a fiscal year. [The Residential Historic Rehabilitation Tax Credit is the HRTC's complement for the rehabilitation of owner-occupied residential properties.]

From FY 2000 to FY 2013, the DNR certified about $8.0 M in credits. In addition, the DNR has already certified tax credits up to the annual aggregate credit limit ($450,000) for each year through FY 2023. This translates into approximately $5 M in additional tax credits to be claimed against future tax liabilities.

In 2008, 48 taxpayers claimed $153,611; 39 taxpayers claimed $99,285 in 2009; and in 2010, 30 taxpayers claimed $93,533 in HRTC on Indiana individual income tax returns. HRTC were not claimed by corporate taxpayers in 2008, 2009, and 2010. Revenue from the AGI Tax on individuals and corporations is distributed to the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue, Division of Historic Preservation and Archaeology, Department of Natural Resources, Office of Community and Rural Affairs.

Local Agencies Affected:

Information Sources: LSA Income Tax Databases; David Duvall, DHPA , 232-1635.

Fiscal Analyst: Heath Holloway, 232-9867.